



**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2014



Dave Yost • Auditor of State

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lancaster-Fairfield Community School
Fairfield County
345 East Mulberry Street
Lancaster, Ohio 43130

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Lancaster-Fairfield Community School, Fairfield County, Ohio (the School), a component unit of Lancaster City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lancaster-Fairfield Community School, Fairfield County, Ohio as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 of the financial statements, the School formally ceased operations on June 30, 2014. Our opinion is not modified with respect to this matter.

As described in Note 13 of the financial statements, in fiscal year ending June 30, 2014, the Lancaster-Fairfield Community School adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operation*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

December 15, 2014

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED**

The discussion and analysis of the Lancaster-Fairfield Community School's (LFCS) financial performance provides an overall review of the LFCS's financial activities for the fiscal year ended June 30, 2014. Readers should also review the basic financial statements and notes to enhance their understanding of the LFCS's financial performance.

Highlights

LFCS completed its tenth year of operation during fiscal year 2014 as a seventh through twelfth grade Community school for students placed by the Fairfield County Juvenile Court. Enrollment varied during the year but averaged 43 students.

Key highlights for fiscal year 2014 are as follows:

- On June 9, 2014, the Sponsor's Board of Education voted to terminate the contract with LFCS one year early and close LFCS as of June 30, 2014.
- LFCS presented special items of (\$49,567) representing costs directly related to the closing of LFCS. Any cash balances remaining after the collection of all receivables and the payment of all liabilities will be returned to the Ohio Department of Education (ODE). ODE will then distribute this balance to the Sponsor, Lancaster City Schools, because all of the students served by LFCS live in the Lancaster City School District. This payment to ODE is included in the special item. This special item amount also includes State and federal grants returned to the grantor and capital assets disposed of through the community school closure process as set by ODE.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how LFCS did financially during fiscal year 2014. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report LFCS's net position and changes in those assets. This change in net position is important because it tells the reader whether the financial position of LFCS has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

LFCS uses enterprise presentation for all of its activities.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED**

Table 1 provides a summary of LFCS's net position for 2014 compared to 2013.

Table 1
Net Position

	2014	2013	Change
<u>Assets:</u>			
Current and Other Assets	\$96,157	\$56,925	\$39,232
Capital Assets	0	3,832	(3,832)
Total Assets	<u>96,157</u>	<u>60,757</u>	<u>35,400</u>
<u>Liabilities:</u>			
Current Liabilities	<u>96,157</u>	<u>600</u>	<u>95,557</u>
<u>Net Position:</u>			
Invested in Capital Assets	0	3,832	(3,832)
Unrestricted	0	56,325	(56,325)
Total Net Position	<u>\$0</u>	<u>\$60,157</u>	<u>(\$60,157)</u>

Total assets increased \$35,400. Current and other assets increased in the amount of \$39,232 primarily due to an increase in cash and cash equivalents in the amount of \$39,207. The increase in cash was due to a portion of contract services for fiscal year 2014 not being paid until after fiscal year-end. These outstanding contracts payable are included in intergovernmental payables in the amount of \$36,400. Capital assets decreased to zero due to the community school closure process as set by ODE. Due to the closure, LFCS is required to dispose of all capital assets through the community school closure process; therefore, the book value of all remaining capital assets in the amount of \$3,106 were written off and included in the amount reported as a special item.

Liabilities increased \$95,557. Current liabilities increased by \$95,557 due primarily to the closure of LFCS as of June 30, 2014. An intergovernmental payable was recorded in the amount of \$95,540 for fiscal year 2014 and no intergovernmental payable was due in fiscal year 2013. Intergovernmental payables consisted of payables to the Fairfield County Juvenile Court in the amount of \$34,175 for contract services, payables to Lancaster City School District (sponsor district) in the amount of \$2,225 for the reimbursement of student tuition expenses, payables for auditing and other financial services in the amount of \$8,700, payables to ODE for the fiscal year 2014 full-time equivalency (FTE) reviews in the amount of \$6,965, and payables to ODE for the closure of LFCS in the amount of \$43,475. The ODE community school closure process requires all remaining funds be returned to ODE; therefore, an intergovernmental payable was recorded in the amount of \$43,475 for the money expected to be returned to ODE. Once all steps of the community school closure process has been completed, ODE will divide all remaining monies between the public school districts that had students enrolled at LFCS. Since LFCS only serviced students in the Lancaster City School District, all of the remaining money will be paid to the Sponsor. Since this intergovernmental payable was directly related to the closure of LFCS, it is included in the special item.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED**

Table 2 reflects the changes in net position for fiscal year 2014, and comparisons to fiscal year 2013.

Table 2
Change in Net Position

	2014	2013	Change
<u>Operating Revenues:</u>			
Foundation	\$322,239	\$313,442	\$8,797
<u>Non-Operating Revenues:</u>			
State and Federal Grants	31,616	42,690	(11,074)
Interest Revenue	42	48	(6)
Other Non-Operating Revenue	299	25	274
Total Revenues	<u>354,196</u>	<u>356,205</u>	<u>(2,009)</u>
<u>Operating Expenses:</u>			
Purchased Services	363,751	349,538	14,213
Materials and Supplies	309	375	(66)
Depreciation	726	1,141	(415)
Other	0	159	(159)
Total Expenses	<u>364,786</u>	<u>351,213</u>	<u>13,573</u>
Special Items	<u>(49,567)</u>	<u>0</u>	<u>(49,567)</u>
Change in Net Position	(60,157)	4,992	(65,149)
Net Position at Beginning of Year	<u>60,157</u>	<u>55,165</u>	<u>4,992</u>
Net Position at End of Year	<u><u>\$0</u></u>	<u><u>\$60,157</u></u>	<u><u>(\$60,157)</u></u>

During fiscal year 2014, foundation revenues increased in the amount of \$8,797 mainly due to increases in special education funding. The decrease in State and federal grants was primarily due to the LFCS receiving decreased grant funding from the Ohio Department of Education for fiscal year 2014 in the areas of Title I and IDEA B. The primary purchased services expenses represent costs for staffing services with the Fairfield County Juvenile Court and the Fairfield County Educational Service Center. Purchased service expenses increased in fiscal year 2014 due mainly to an increase in contract payments to the Fairfield County Juvenile Court. Based upon an agreement between LFCS and the Fairfield County Juvenile Court, the Fairfield County Juvenile Court receives 70 percent of the foundation revenues for services provided to operate the LFCS. During fiscal year 2014, LFCS returned funding to the Ohio Department of Education due to prior year overpayments in the amount of \$1,465. This amount was deducted from fiscal year 2014 foundation revenues. The Ohio Department of Education annual funding review of fiscal year 2014 revealed that LFCS was overpaid by \$6,965. This overpayment was shown as a reduction to intergovernmental revenue on the fiscal year 2014 financial statements. The final closure review of LFCS has not been completed at this time.

The special items in the amount of (\$49,567) includes costs directly related to the closure of LFCS. Any cash balances remaining after the collection of all receivables and the payment of all liabilities was estimated and is reflected as an intergovernmental payable in accordance with ODE's community school closeout process. This remaining balance will be given by ODE to the Sponsor because all of the students served by the LFCS were students of the Lancaster City School District.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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Due to the closure, unspent State and federal grant money was returned to the grantors in the amount of \$2,986 that normally would have been carried forward to the next fiscal year. Also, due to the closure, the remaining book value of capital assets were written off and factored into the special item due to ODE's community school closure process which requires all capital assets to be transferred to another school district, community school, or disposed. The intergovernmental payable to ODE in the amount of \$43,475, unspent State and federal grant money returned due to the closure in the amount of \$2,986, and the remaining book value of capital assets in the amount of \$3,106 totaled \$49,567.

Budgeting

LFCS is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705. The contract between LFCS and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, LFCS showed no capital assets due to the June 30, 2014 closing of LFCS. All remaining capital assets as of June 30, 2014 must be transferred to another school district or community school or disposed. Table 3 shows fiscal year 2014 balances compared to 2013. See Note 5 for additional information.

Table 3
Capital Assets (Net of Depreciation)

	<u>2014</u>	<u>2013</u>
Computer Equipment	\$0	\$3,832

Debt

LFCS has not incurred any debt.

Current Issues

Over the years, LFCS has helped students receive a good education; however, on June 9, 2014, the Sponsor's Board of Education decided to close LFCS as of June 30, 2014. The Sponsor decided to close LFCS in order to pursue a more efficient and effective holistic model of educational support services for the adjudicated at-risk students of Fairfield County.

Contacting the LFCS's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the LFCS's finances and to show the LFCS's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Julie Taylor, Treasurer, Lancaster-Fairfield Community School, 345 Mulberry Street, Lancaster, Ohio 43130. Or E-Mail at J_TAYLOR@LANCASTER.K12.OH.US.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 58,558
Accounts Receivable	499
Intergovernmental Receivable	37,096
Accrued Interest Receivable	4
Total Assets	<u>96,157</u>
 <u>Liabilities:</u>	
Accounts Payable	617
Intergovernmental Payable	95,540
Total Liabilities	<u>96,157</u>
 <u>Net Position:</u>	
Total Net Position	<u>\$ -</u>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Operating Revenues:</u>	
Foundation	\$ 322,239
Total Operating Revenues	<u>322,239</u>
 <u>Operating Expenses:</u>	
Purchased Services	363,751
Materials and Supplies	309
Depreciation	726
Total Operating Expenses	<u>364,786</u>
 Operating Loss	 <u>(42,547)</u>
 <u>Non-Operating Revenues:</u>	
State and Federal Grants	31,616
Interest Revenue	42
Other Non-Operating Revenue	299
Total Non-Operating Revenues	<u>31,957</u>
 Special Items	 <u>(49,567)</u>
 Change in Net Position	 <u>(60,157)</u>
 Net Position at Beginning of Year	 <u>60,157</u>
Net Position at End of Year	<u>\$ -</u>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation	\$ 329,204
Cash Payments to Suppliers for Goods and Services	(317,434)
Other Non-Operating Revenues	299
Net Cash Provided by Operating Activities	<u>12,069</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
State and Federal Grants Received	27,100
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>38</u>
Net Increase in Cash and Cash Equivalents	39,207
Cash and Cash Equivalents Beginning of Year	<u>19,351</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 58,558</u></u>
<u>Reconciliation of Operating Loss to</u>	
<u>Net Cash Provided by Operating Activities:</u>	
Operating Loss	\$ (42,547)
<u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash Provided by Operating Activities:</u>	
Other Non-Operating Revenues	299
Depreciation Expense	726
<u>Changes in Assets and Liabilities:</u>	
Increase in Accounts Receivable	(499)
Decrease in Intergovernmental Receivable	574
Decrease in Prepaid Items	1,434
Increase in Accounts Payable	17
Increase in Intergovernmental Payable	<u>52,065</u>
Net Cash Provided by Operating Activities	<u><u>\$ 12,069</u></u>

See accompanying notes to the basic financial statements

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**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note 1 - Description of the School

The Lancaster-Fairfield Community School (LFCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The LFCS's mission is to utilize a holistic approach to the education of at-risk students, offering students a variety of programs that address the physical, social, emotional, and educational needs of the students. The LFCS feels it is necessary to assist at-risk youth in developing positive behaviors and attitudes and become successful learners. LFCS serves students within the Lancaster City School District, Sponsor school district.

LFCS began operations on October 8, 2004 by entering into a five year contract with the Lancaster City School District (the Sponsor). Additional contracts were renewed in July 2008 for five years and in June 2013 for an additional two years. The Sponsor is responsible for evaluating the performance of LFCS and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the LFCS with the Treasurer of the Sponsor completing the role of Treasurer for the LFCS. LFCS contracted with a financial oversight treasurer to review the financial records of LFCS on a monthly basis. On June 4, 2014, the LFCS Board of Education agreed with the Sponsor's Board of Education to close LFCS by terminating the contract between LFCS and Lancaster City School District's Board of Education one year early. On June 9, 2014, the Sponsor's Board of Education terminated the sponsorship agreement as of June 30, 2014.

The LFCS operates under the direction of a five-member Board of Directors from the public sector appointed by the Sponsor. LFCS is a component unit of the Sponsor. The Sponsor appoints the board and is able to impose its will on the LFCS. The Sponsor can suspend the LFCS's operations for any of the following reasons: 1) The LFCS's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The LFCS's failure to meet generally accepted standards of fiscal management, 3) The LFCS's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LFCS and the children it serves. Since the LFCS was established in 2008, LFCS has paid purchased services to the Fairfield County Juvenile Court and the Fairfield County Educational Service Center for providing staffing services. Thus, LFCS did not have any employees. LFCS used the facilities of the Fairfield County Juvenile Court.

LFCS participates in the Ohio School Plan which is considered an insurance purchasing pool. This organization is presented in Note 12 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the LFCS have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the LFCS's accounting policies are described below.

A. Basis of Presentation

The LFCS's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

LFCS uses a single enterprise presentation for its financial reports. Enterprise reporting focuses on the determination of operating income or loss, changes in net position, financial position, and cash flows.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of LFCS are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how LFCS finances meet its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. LFCS's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which LFCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which LFCS must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to LFCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by LFCS's contract with its Sponsor. The contract between LFCS and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on a bi-annual basis.

E. Cash and Cash Equivalents

Cash received by LFCS is reflected as "Cash and Cash Equivalents" on the statement of net position. LFCS had no investments during the fiscal year ended June 30, 2014.

F. Capital Assets

LFCS's capital assets during fiscal year 2014 consisted of computer equipment. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. LFCS maintains a capitalization threshold of five hundred dollars. All of LFCS's reported capital assets are depreciated using the straight-line method over six years of useful life. Due to the closure of LFCS as of June 30, 2014, capital assets carried a zero balance. See Note 5 for more information.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by LFCS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LFCS applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The statement of net position reported no restricted net position and had no monies restricted by enabling legislation. Due to the closure of LFCS, net position had a zero balance at fiscal year-end.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of LFCS. Operating expenses are necessary costs incurred to provide the service that is the primary activity of LFCS. All revenues and expenses not meeting this definition are reported as non-operating.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of LFCS or the Sponsor and that are either unusual in nature or infrequent in occurrence. For fiscal year 2014, LFCS is reporting a special item representing costs directly related to the closing of LFCS. See Note 15 for further details.

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, LFCS's deposits may not be returned. LFCS does not have a deposit policy for custodial credit risk. At June 30, 2014, the bank balances of LFCS's deposits were \$58,558. All of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by LFCS.

Note 4 - Receivables

Receivables at June 30, 2014 consisted of accounts, accrued interest, intergovernmental, and intergovernmental grants receivable. The receivables are expected to be collected in full within one year.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 4 – Receivables (Continued)

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
IDEA Part B Grant	\$8,801
Owed from Fairfield County Juvenile Court	10,124
Title I Grant	18,171
Total	\$37,096

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Closure Deletions	Balance June 30, 2014
Computer Equipment	\$8,056	\$0	(\$8,056)	\$0
Less Accumulated Depreciation	(4,224)	(726)	4,950	0
Capital Assets, Net	\$3,832	(\$726)	(\$3,106)	\$0

Due to the closure of LFCS, the remaining balance of the capital assets, net, in the amount of \$3,106 was removed from the Statement of Net Position and is included in the amount reported as a special item on the Statement of Revenues, Expenses, and Changes in Net Position.

Note 6 - Risk Management

LFCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2014, LFCS joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool, for insurance coverage. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 6 - Risk Management (Continued)

The types and amounts of coverage provided are as follows:

Educational General Liability:	
General Aggregate Limit	\$4,000,000
Wrongful Act and Sexual Abuse Injury	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury	2,000,000
Fiduciary Liability - Claims Made:	
Each Occurrence	2,000,000
Aggregate	4,000,000
Employer's Liability for Each Accident	2,000,000
Errors and Omissions:	
Each Occurrence (deductible \$2,500)	2,000,000
Aggregate Limit (deductible \$2,500)	4,000,000
Employment Practices Injury:	
Each Occurrence (deductible \$2,500)	2,000,000
Aggregate (deductible \$2,500)	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

Note 7 – Purchased Services

For fiscal year 2014, purchased service expenses were for the following services:

Type	Amount
Legal, bank, and audit services	\$15,457
Licking Area Computer Association for computer services	1,140
Bank charges and Dissolution charges	175
Treasurer and board member bonding	935
Student Tutoring Services	2,225
Fairfield County Educational Service Center for staffing services	104,574
Fairfield County Juvenile Court for staffing services	239,245
Total	<u>\$363,751</u>

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 8 – Contract with the Fairfield County Juvenile Court and the Fairfield County Educational Service Center

LFCS signed a contract with the Fairfield County Juvenile Court for use of their facility and for personnel services to teach and supervise the students of LFCS. The Fairfield County Juvenile Court is entitled to seventy percent of the base formula funding, adjusted by the Sponsor's cost of doing business factor, received by the LFCS through the State foundation.

LFCS signed a contract with the Fairfield County Educational Service Center for some teaching services also.

Note 9 – Related Party Transactions

LFCS's Sponsor, Lancaster City Schools, appoints all five Board of Directors. During fiscal year 2014, LFCS had paid nothing to the Sponsor. As of fiscal year-end, LFCS owed \$2,225 to the Sponsor for reimbursement of student tuition expenses.

Note 10 – State Teachers Retirement System Plan

LFCS has contracted with the Fairfield County Juvenile Court to provide employee services and to pay those employees. However, these contract services do not relieve LFCS of the obligation for remitting pension contributions. The retirement system considers LFCS as the Employer-of-Record and LFCS is ultimately responsible for remitting retirement contributions to the State Teachers Retirement System.

Plan Description – Certified teachers, employed by LFCS (employer of record), participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 10 – State Teachers Retirement System Plan (Continued)

Funding Policy – Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate was increased one percent July 1, 2013, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salary. LFCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, the portion used to fund pension obligations was also 13 percent.

LFCS's required contributions to STRS Ohio for the DB Plan was \$23,368 for fiscal year ended June 30, 2014, \$37,232 for fiscal year ended June 30, 2013, and \$31,609 for fiscal year ended June 30, 2012. For fiscal year 2014, 100.00 percent has been contributed for the DB Plan. The full amount has also been contributed for fiscal year 2013 and 2012. LFCS had no participates in the DC Plan or the defined benefit portion of the Combined Plan.

Note 11 – State Teachers Retirement System Post Employment Benefits

Plan Description – LFCS participates in the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. LFCS's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,798, \$2,864, and \$2,431, respectively. For fiscal year 2014, 100.00 percent has been contributed. The full amount has also been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current one percent allocation to the health care fund effectively July 1, 2014.

Note 12 – Pool

LFCS participates in the Ohio School Plan (OSP), and insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a twelve member Board of Directors consisting of school district superintendents and treasurers. Hylant Administrative Services, LLC is the Administrator of the OSP and is responsible for providing underwriting, claims management, risk management, accounting, system support services, sales, and marketing.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

Note 13 – Change in Accounting Principles

For fiscal year 2014, LFCS has implemented Governmental Accounting Standards Board (GASB) Statement No. 69, "Government Combinations and Disposals of Government Operation."

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in the statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The implementation of this statement did not result in any change to net position as previously stated but is incorporated in the accompanying financial statements as it relates to the closing of LFCS.

Note 14 - Contingencies

A. Grants

LFCS received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of LFCS. However, the effect of any such disallowed claims on the overall financial position of LFCS at June 30, 2014, if applicable, cannot be determined at this time.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LFCS. These reviews are conducted to ensure LFCS is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. During fiscal year 2014, LFCS paid \$1,465 to the Ohio Department of Education for overpayments received during in fiscal year 2013. The fiscal year 2014 annual review by the Ohio Department of Education revealed that LFCS was overpaid by \$6,965. This overpayment was shown as an intergovernmental payable and a reduction to intergovernmental revenue on the financial statements. The final closure review by the Ohio Department of Education of LFCS is not available at this time.

Note 15 – Special Item – Closure of Lancaster-Fairfield Community School

On June 9, 2014, the Sponsor's Board of Education approved the closure and discontinuation of the contract between the Sponsor and LFCS a year early, effective at fiscal year-end June 30, 2014. This closure was deemed necessary by the Sponsor in order for the Sponsor to be able to pursue a more efficient and effective holistic model of educational and support services for the adjudicated at-risk students of Fairfield County.

LFCS is reporting a special item representing costs directly related to the closure. This amount includes the remaining cash balances which will be returned to the Ohio Department of Education (ODE) after the collection of all receivables and the payment of all liabilities according to ODE closing procedures. ODE will allocate the remaining balance to the Sponsor due to all of the students in LFCS belonging to Lancaster City School District. This amount is included in intergovernmental payable on the Statement of Net Position. Also due to the closure, unspent State and federal grant money was returned to the grantor. Capital assets no longer being used will be disposed of in accordance with the community school closure process sent by ODE.

LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)

Note 15 – Special Item – Closure of Lancaster-Fairfield Community School (Continued)

A summary of principal items included as a special item on the Statement of Revenues, Expenses, and Changes in Net Position follows:

	<u>Amounts</u>
Money Returned to ODE	\$43,475
State and Federal Grant Money	2,986
Capital Assets:	
Disposals	<u>3,106</u>
Total Special Item	<u><u>\$49,567</u></u>

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Lancaster-Fairfield Community School
Fairfield County
345 East Mulberry Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Lancaster-Fairfield Community School, Fairfield County, Ohio, (the School), a component unit of Lancaster City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 15, 2014, wherein we noted the School formally ceased operations on June 30, 2014. We also noted the School adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operation*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 15, 2014



Dave Yost • Auditor of State

LANCASTER FAIRFIELD COMMUNITY SCHOOL

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2014**